

**Village of Capac
St. Clair County, Michigan**

FINANCIAL STATEMENTS

June 30, 2008

Village of Capac
St. Clair County, Michigan

June 30, 2008

VILLAGE COUNCIL AND ADMINISTRATION

Mark Klug	President
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Elizabeth Hargrave	Council Member
Larry Adams	Council Member
Robert Lumbardo	Council Member
Marsha Libkie	Council Member
Chris Crary	Village Manager
Candy Franckowiak	Clerk

Village of Capac
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INDEPENDENT AUDITOR'S REPORT

To the Honorable President and
Members of the Village Council
Village of Capac
Capac, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Capac as of and for the year ended June 30, 2008, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Capac as of June 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 10, 2008 on our consideration of the Village of Capac's internal control over the financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of the testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal controls and financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Capac's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

December 10, 2008

OVERVIEW OF THE FINANCIAL STATEMENTS

The Village of Capac's 2008 annual report is presented in conformity with the requirements of GASB 34. This annual report consists of four parts - management's discussion and analysis, the basic financial statements, required supplementary information, and other supplementary information. The basic financial statements include two kinds of statements that present different views of the Village. The first two statements are government-wide financial statements that provide both long-term and short-term information about the Village's overall financial status. The remaining statements are fund financial statements that focus on individual parts of the Village's government, reporting the Village's operations in more detail than the government-wide statements.

Government-wide Financial Statements

The government-wide statements report information about the Village as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid (full accrual).

The two government-wide statements report the Village's net assets and how they have changed. Net assets, defined as the difference between the Village's assets and liabilities, are one way to measure the Village's financial health or position.

The government-wide financial statements of the Village are divided into two categories:

- **Governmental Activities** - Most of the Village's basic services are included here, such as the police, fire, public works, parks and recreation, general administration and debt retirement. Property taxes, state-shared revenues, and charges for services provided most of the funding.
- **Business-type Activities** - The Village charges fees to customers to help it cover the costs of certain services it provides. The water, sewer and trash operations are treated as business-type activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the Village's most significant funds; not the Village as a whole. Funds are accounting devices that the Village uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and/or by bond covenants. The Village Council establishes other funds to control and manage money for particular purposes.

The Village has three kinds of funds:

- **Governmental Funds** - Most of the Village's basic services are included in governmental funds, which focus on how cash and other financial assets can readily be converted to cash flow in and out, and the balances left at year end that are available for spending. The governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Village's programs. The Village currently has eight (8) governmental funds.
- **Proprietary Funds** - Services for which the Village charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long and short-term financial information. The Village currently has three (3) proprietary funds.
- **Fiduciary Funds** - Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the Village's operations.

FINANCIAL OVERVIEW (government-wide financial analysis)

The Village has combined total net assets of \$6,767,461. This is an increase of \$419,796 over 2007. Government-type activities comprise \$2,159,048, and business-type activities make up \$4,608,413 of the total net assets. In a condensed format, the table below shows net assets as of June 30, 2008 and 2007:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Assets				
Current assets	\$ 659,686	\$ 752,704	\$ 263,720	\$ 263,661
Restricted assets	-	-	674,271	550,128
Other assets	-	-	35,144	42,734
Capital assets	<u>1,886,923</u>	<u>1,383,556</u>	<u>7,853,669</u>	<u>7,805,958</u>
Total assets	<u>2,546,609</u>	<u>2,136,260</u>	<u>8,826,804</u>	<u>8,662,481</u>
Liabilities				
Current liabilities	247,334	165,360	346,184	390,018
Long-term liabilities	<u>140,227</u>	<u>156,814</u>	<u>3,872,207</u>	<u>3,738,884</u>
Total liabilities	<u>387,561</u>	<u>322,174</u>	<u>4,218,391</u>	<u>4,128,902</u>
Net Assets				
Invested in capital assets -				
Net of related debt	1,738,940	1,222,757	3,754,081	3,781,579
Restricted	275,074	457,381	636,301	550,128
Unrestricted	<u>145,034</u>	<u>133,948</u>	<u>218,031</u>	<u>201,872</u>
Total net assets	<u>\$ 2,159,048</u>	<u>\$ 1,814,086</u>	<u>\$ 4,608,413</u>	<u>\$ 4,533,579</u>

The Village's governmental activities experienced an increase in net assets of \$344,962. The business-type activities experienced an increase in net assets of \$74,834.

The following table shows the changes in net assets for 2008 and 2007:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Revenue				
Program revenue:				
Charges for services	\$ 25,276	\$ 12,134	\$ 651,983	\$ 615,363
Operating grants and contributions	109,811	120,632	-	-
Capital grants and contributions	512,785	-	-	-
General revenue:				
Property taxes	528,235	511,968	116,881	113,164
State-shared revenue	218,742	217,681	-	-
Other unrestricted revenues	53,282	39,812	-	-
Unrestricted investment earnings	12,002	20,719	18,401	14,309
Rents	<u>15,817</u>	<u>13,000</u>	<u>-</u>	<u>-</u>
Total revenue	<u>1,475,950</u>	<u>935,946</u>	<u>787,265</u>	<u>742,836</u>

VILLAGE OF CAPAC**Management's Discussion and Analysis**

The following table shows the changes in net assets for 2008 and 2007 - continued:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Program Expenses				
General government	\$ 178,730	\$ 140,826	\$ -	\$ -
Public safety	459,788	334,942	-	-
Public works	336,339	222,402	-	-
Economic development	49,530	28,620	-	-
Recreation and cultural	24,475	25,455	-	-
Other activities	88,248	52,640	-	-
Interest on long-term debt	9,210	16,827	-	-
Water	-	-	372,025	298,613
Sewer	-	-	236,848	248,709
Trash	-	-	91,278	88,183
Total program expenses	<u>1,146,320</u>	<u>821,712</u>	<u>700,151</u>	<u>635,505</u>
Changes in net assets before transfers	329,630	114,234	87,114	107,331
Transfers between funds and component units	<u>15,332</u>	<u>250,869</u>	<u>(12,280)</u>	<u>71,760</u>
Changes in net assets	<u>\$ 344,962</u>	<u>\$ 365,103</u>	<u>\$ 74,834</u>	<u>\$ 179,091</u>

Governmental Activities

Revenues for governmental activities totaled \$1,475,950 in 2008. Of this amount, \$528,235 or 36% was received from taxes, followed by \$ 512,785 or 35% received from Federal capital grants, and State Shared Revenue of \$218,742 or 15%.

Business-type Activities

The Village has three business-type activities, sewer, water, and trash. The Village provides water to the Village users from the Village wells. The Village provides sewage disposal services with a Lagoon system. Trash services are contracted by the Village. For the year ended June 30, 2008, the sewer, water, and trash funds had a net increase (decrease) in net assets of \$85,540, \$(8,818), and \$(1,888), respectively.

FINANCIAL ANALYSIS OF MAJOR FUNDS

The General Fund had a total fund balance of \$142,955. When the reserved fund balance of \$24,667 is removed, the General Fund had an unreserved/undesignated fund balance of \$118,288. This is an increase of \$57,153 from the prior year.

The remaining major governmental funds reported a change in fund balance during the year and had a fund balance at June 30, 2008 of the following:

	<u>(Decrease) in Fund Balance</u>	<u>Fund Deficit</u>
Police Department	\$(26,569)	\$(5,546)

The other major funds are the Sewer, Water, and Trash Funds, which have been discussed earlier.

BUDGETARY HIGHLIGHTS

Over the course of the year, the Village Administration and Council monitor the budget, and if necessary, amend the budget to take into account unanticipated events that occur during the year. The original General Fund estimated expenditures and transfers for the year were \$744,925 and the final budget estimated expenditures were \$762,725 for a difference of \$17,800. The most significant variations from original to final budgets and final budget to actual are as follows:

General Fund

- The final budget reflected a decrease to the Contingencies expenditure activity of \$19,393 mainly due to planned expenditure increases in other activities, mainly Public Works and Planning and Zoning.

Other Funds

- The Police Department Fund expenditures exceeded the final budgeted amounts by \$20,132 which was due to incurring expenditures in excess of the approved budget amounts in salary and retiree benefit line items.

CAPITAL ASSETS AND DEBT ADMINISTRATION**Capital Assets**

The Village had \$9,740,592 invested in capital assets for its governmental and business-type activities (net of accumulated depreciation) as of June 30, 2008. The investment in capital assets includes land, buildings and building improvements, machinery and equipment, vehicles, and water and sewer systems. Infrastructure (e.g., roads, drains, etc.) purchased on or after July 1, 2003 is also included. During the year the Village added approximately \$2,748,592 of capital assets before taking into account depreciation, \$575,020 in the governmental activities and \$2,173,572 in the business-type activities. The additions in the governmental activities are primarily due to street and sidewalk improvements. The additions in the business-type activities are primarily due to a water system improvement project the Village began in the summer of 2006. Depreciation for the year was \$71,651 in the governmental activities and \$146,381 in the business-type activities.

The following table shows the capital assets at June 30, 2008:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Land	\$ 102,111	\$ 39,000
Land improvements	86,779	-
Buildings and improvements	654,668	-
Machinery and equipment	235,258	56,376
Vehicles	273,258	-
Infrastructure	1,279,309	-
Utility systems	-	10,980,166
Construction in progress	-	507,082
	2,631,383	11,582,624
Accumulated depreciation	(744,460)	(3,728,955)
	<u>\$ 1,886,923</u>	<u>\$ 7,853,669</u>

Long-term Debt

At June 30, 2008 the Village had \$4,234,359 in long-term debt compared to \$4,110,783 at June 30, 2007. During the year the Village had drawn down the remaining balance of \$337,000 related to the USDA Rural Development loan program for water system improvements. The following table shows the long-term debt at June 30, 2008:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Bonds/Loans	\$ -	\$ 4,075,000
Notes/Contracts Payable	147,983	-
Compensated Absences	<u>6,169</u>	<u>5,207</u>
	<u>\$ 154,152</u>	<u>\$ 4,080,207</u>

Additional information on long-term debt can be found in Note F to the financial statements.

ECONOMIC FACTORS AND NEXT YEARS BUDGETS AND RATES

The Village of Capac, as with many other cities and villages, continues to see little or no revenue increases. We continue to make cuts and expect to have a balanced budget. We have raised both water and sewer rates the last two (2) years to allow us to pay the bond issue to expand the water system and build an arsenic treatment plant.

CONTACTING THE VILLAGE

This financial report is designed to provide general overview of the Village's finances to our residents and other interested parties in understanding the Village's financial condition. If you have questions about this report or need additional financial information, please contact the Village Manager at 810-395-4355, or in writing to the same, 131 North Main Street, Capac, Michigan 48014.

BASIC FINANCIAL STATEMENTS

Village of Capac

STATEMENT OF NET ASSETS

June 30, 2008

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 425,704	\$ 165,869	\$ 591,573	\$ 79,795
Receivables	4,588	95,940	100,528	-
Investments	121,314	-	121,314	-
Restricted Assets				
Cash and cash equivalents	-	353,631	353,631	-
Investments	-	180,060	180,060	-
Due from other funds	-	37,970	37,970	-
Deposits with county	-	102,610	102,610	-
Due from other funds	68,391	-	68,391	-
Due from component unit	6,774	-	6,774	-
Prepays	32,915	1,911	34,826	-
Total current assets	659,686	937,991	1,597,677	79,795
Noncurrent assets				
Capital assets	2,631,383	11,582,624	14,214,007	9,783
Accumulated depreciation	(744,460)	(3,728,955)	(4,473,415)	-
Deferred charges	-	35,144	35,144	-
Total noncurrent assets	1,886,923	7,888,813	9,775,736	9,783
TOTAL ASSETS	2,546,609	8,826,804	11,373,413	89,578
LIABILITIES				
Current liabilities				
Accounts payable	183,014	14,156	197,170	-
Accrued liabilities	2,564	344	2,908	-
Due to other funds	42,409	63,952	106,361	-
Due to primary government	-	-	-	6,774
Deferred revenue	5,422	-	5,422	-
Interest payable	-	59,732	59,732	-
Current portion of long-term debt	13,925	208,000	221,925	-
Total current liabilities	247,334	346,184	593,518	6,774
Noncurrent liabilities				
Accrued sick and vacation	6,169	5,207	11,376	-
Noncurrent portion of long-term debt	134,058	3,867,000	4,001,058	-
Total noncurrent liabilities	140,227	3,872,207	4,012,434	-
TOTAL LIABILITIES	387,561	4,218,391	4,605,952	6,774
NET ASSETS				
Invested in capital assets, net of related debt	1,738,940	3,754,081	5,493,021	9,783
Restricted for:				
Debt service	-	218,577	218,577	-
Capital projects	161,947	417,724	579,671	-
Other purposes	113,127	-	113,127	-
Unrestricted	145,034	218,031	363,065	73,021
TOTAL NET ASSETS	\$ 2,159,048	\$ 4,608,413	\$ 6,767,461	\$ 82,804

See accompanying notes to financial statements.

Village of Capac
STATEMENT OF ACTIVITIES
Year Ended June 30, 2008

					Net (Expense) Revenue and Changes in Net Assets			
Functions/Programs	Expenses	Program Revenues			Primary Government			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary government								
Governmental activities								
General government	\$ 178,730	\$ 273	\$ -	\$ -	\$ (178,457)	\$ -	\$ (178,457)	\$ -
Public safety	459,788	5,503	2,692	-	(451,593)	-	(451,593)	-
Public works	336,339	19,500	107,119	512,785	303,065	-	303,065	-
Community and economic development	49,530	-	-	-	(49,530)	-	(49,530)	-
Recreation and cultural	24,475	-	-	-	(24,475)	-	(24,475)	-
Other	88,248	-	-	-	(88,248)	-	(88,248)	-
Interest on long-term debt	9,210	-	-	-	(9,210)	-	(9,210)	-
Total governmental activities	1,146,320	25,276	109,811	512,785	(498,448)	-0-	(498,448)	-0-
Business-type activities								
Sewer	236,848	198,722	-	-	-	(38,126)	(38,126)	-
Trash	91,278	89,335	-	-	-	(1,943)	(1,943)	-
Water	372,025	363,926	-	-	-	(8,099)	(8,099)	-
Total business-type activities	700,151	651,983	-0-	-0-	-0-	(48,168)	(48,168)	-0-
Total primary government	<u>\$ 1,846,471</u>	<u>\$ 677,259</u>	<u>\$ 109,811</u>	<u>\$ 512,785</u>	(498,448)	(48,168)	(546,616)	-0-
Component units								
Downtown Development Authority	<u>\$ 18,545</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	-	-	-0-	(18,545)
Total component units	<u>\$ 18,545</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	-0-	-0-	-0-	(18,545)
General revenues								
Property taxes					528,235	116,881	645,116	69,228
State shared revenues					218,742	-	218,742	-
Investment earnings					12,002	18,401	30,403	323
Rents					15,817	-	15,817	-
Other					53,282	-	53,282	-
Transfers					15,332	(12,280)	3,052	(3,052)
Total general revenues and transfers					843,410	123,002	966,412	66,499
Change in net assets					344,962	74,834	419,796	47,954
Net assets, beginning of the year					1,814,086	4,533,579	6,347,665	34,850
Net assets, end of the year					\$ 2,159,048	\$ 4,608,413	\$ 6,767,461	\$ 82,804

See accompanying notes to financial statements.

Village of Capac

Governmental Funds

BALANCE SHEET

June 30, 2008

	General	Police Department	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 66,814	\$ 4,119	\$ 354,771	\$ 425,704
Accounts receivable	2,342	10	1,476	3,828
Due from other governmental units - State	68,109	-	53,205	121,314
Due from other funds	21,938	195	47,018	69,151
Due from component unit	6,774	-	-	6,774
Prepays	24,667	8,082	166	32,915
TOTAL ASSETS	\$ 190,644	\$ 12,406	\$ 456,636	\$ 659,686
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 14,098	\$ 6,830	\$ 162,086	\$ 183,014
Accrued liabilities	1,591	973	-	2,564
Due to other funds	32,000	10,149	260	42,409
Deferred revenue	-	-	5,422	5,422
TOTAL LIABILITIES	47,689	17,952	167,768	233,409
FUND BALANCES				
Reserved for				
Prepays	24,667	8,082	166	32,915
Unreserved				
Undesignated, reported in				
General Fund	118,288	-	-	118,288
Capital Project Funds	-	-	161,947	161,947
Special Revenue Funds	-	(13,628)	126,755	113,127
TOTAL FUND BALANCES	142,955	(5,546)	288,868	426,277
TOTAL LIABILITIES AND FUND BALANCES	\$ 190,644	\$ 12,406	\$ 456,636	\$ 659,686

See accompanying notes to financial statements.

Village of Capac

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

June 30, 2008

Total fund balance - governmental funds \$ 426,277

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds:

The cost of capital assets is	\$ 2,631,383	
Accumulated depreciation is	<u>(744,460)</u>	
Capital assets, net		1,886,923

Long-term liabilities are not due and payable in the current period and
therefore are not reported in the Governmental Funds Balance Sheet.
Long-term liabilities at year-end consist of:

Notes payable	(138,992)	
Lease payable	(8,991)	
Compensated absences	<u>(6,169)</u>	
		<u>(154,152)</u>

Net assets of governmental activities \$ 2,159,048

See accompanying notes to financial statements.

Village of Capac

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2008

	General	Police Department	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 469,678	\$ -	\$ 58,557	\$ 528,235
Charges for services	-	-	19,500	19,500
Licenses and permits	273	-	-	273
Intergovernmental	218,742	2,692	619,904	841,338
Fines and forfeits	-	5,503	-	5,503
Interest and rents	19,597	247	7,975	27,819
Other	83,104	1,531	19,886	104,521
TOTAL REVENUES	791,394	9,973	725,822	1,527,189
EXPENDITURES				
Current				
General government	127,376	-	-	127,376
Public safety	-	327,677	-	327,677
Public works	147,238	-	92,461	239,699
Community and economic development	35,299	-	-	35,299
Recreation and cultural	17,443	-	-	17,443
Other	62,891	-	-	62,891
Debt service	-	22,024	-	22,024
Capital outlay	-	835	832,190	833,025
TOTAL EXPENDITURES	390,247	350,536	924,651	1,665,434
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	401,147	(340,563)	(198,829)	(138,245)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	313,994	174,100	488,094
Transfers out	(343,994)	-	(128,768)	(472,762)
TOTAL OTHER FINANCING SOURCES (USES)	(343,994)	313,994	45,332	15,332
NET CHANGE IN FUND BALANCES	57,153	(26,569)	(153,497)	(122,913)
Fund balances, beginning of year	85,802	21,023	442,365	549,190
Fund balances, end of year	<u>\$ 142,955</u>	<u>\$ (5,546)</u>	<u>\$ 288,868</u>	<u>\$ 426,277</u>

See accompanying notes to financial statements.

Village of Capac

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

Net change in fund balances - total governmental funds \$ (122,913)

Amounts reported for governmental activities in the statement of activities are different because:

Amounts received during the current period were recorded as deferred revenues in prior periods in the fund level financial statements and already reported as revenues in prior period government wide financial statements. (51,240)

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 575,020
Depreciation expense	<u>(71,651)</u>

Excess of capital outlay under depreciation expense	503,369
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Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Bond principal retirement	12,815
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued compensated absences	<u>2,931</u>
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Change in net assets of governmental activities	\$ <u>344,962</u>
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See accompanying notes to financial statements.

Village of Capac

Proprietary Funds

STATEMENT OF NET ASSETS

June 30, 2008

	Business-type Activities			
	Sewer	Water	Trash	Total
ASSETS				
Current assets				
Cash and cash equivalents	\$ 57,579	\$ 93,196	\$ 15,094	\$ 165,869
Accounts receivable	27,707	52,802	15,431	95,940
Prepaid expenses	777	866	268	1,911
Total current assets	86,063	146,864	30,793	263,720
Restricted Assets				
Cash and cash equivalents	2,544	351,087	-	353,631
Investments	64,553	115,507	-	180,060
Due from other funds	37	37,933	-	37,970
Deposits with county	102,610	-	-	102,610
Total restricted assets	169,744	504,527	-0-	674,271
Noncurrent assets				
Capital assets	6,199,258	5,378,530	4,836	11,582,624
Accumulated depreciation	(2,266,838)	(1,457,281)	(4,836)	(3,728,955)
Total capital assets net	3,932,420	3,921,249	-0-	7,853,669
Deferred charges	10,188	24,956	-	35,144
Total noncurrent assets	3,942,608	3,946,205	-0-	7,888,813
TOTAL ASSETS	4,198,415	4,597,596	30,793	8,826,804
LIABILITIES				
Current liabilities				
Accounts payable	4,531	4,163	5,462	14,156
Accrued liabilities	162	162	20	344
Due to other funds	35,202	1,568	9,249	46,019
Total current liabilities	39,895	5,893	14,731	60,519
Current liabilities payable from restricted assets				
Due to other funds	17,933	-	-	17,933
Current portion of bond/notes payable	145,000	63,000	-	208,000
Accrued interest payable	11,003	48,729	-	59,732
Total current liabilities payable from restricted assets	173,936	111,729	-0-	285,665

Village of Capac

Proprietary Funds

STATEMENT OF NET ASSETS - CONTINUED

June 30, 2008

	Business-type Activities			Total
	Sewer	Water	Trash	
LIABILITIES - CONTINUED				
Noncurrent liabilities				
Accrued vacation and sick	\$ 2,106	\$ 3,101	\$ -	\$ 5,207
Bonds payable (net of current portion)	765,000	2,972,000	-	3,737,000
Notes payable (net of current portion)	130,000	-	-	130,000
Total long-term liabilities	897,106	2,975,101	-0-	3,872,207
TOTAL LIABILITIES	1,110,937	3,092,723	14,731	4,218,391
NET ASSETS				
Invested in capital assets, net of related debt	2,891,605	862,476	-	3,754,081
Restricted				
Debt service	67,097	151,480	-	218,577
Capital projects	102,610	315,114	-	417,724
Unrestricted	26,166	175,803	16,062	218,031
TOTAL NET ASSETS	\$ 3,087,478	\$ 1,504,873	\$ 16,062	\$ 4,608,413

See accompanying notes to financial statements.

Village of Capac

Proprietary Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended June 30, 2008

	Business-type Activities			
	Sewer	Water	Trash	Total
OPERATING REVENUES				
Charges for services	\$ 193,160	\$ 355,643	\$ 87,748	\$ 636,551
Other	5,562	8,283	1,587	15,432
TOTAL OPERATING REVENUES	198,722	363,926	89,335	651,983
OPERATING EXPENSES				
Salaries and wages	60,327	79,018	6,032	145,377
Benefits	24,625	33,283	3,470	61,378
Supplies	2,668	12,636	369	15,673
Contracted services	6,327	21,634	81,390	109,351
Utilities	9,722	18,767	-	28,489
Repairs and maintenance	995	1,760	-	2,755
Depreciation	79,807	66,574	-	146,381
Other	1,042	18,188	17	19,247
TOTAL OPERATING EXPENSES	185,513	251,860	91,278	528,651
OPERATING INCOME (LOSS)	13,209	112,066	(1,943)	123,332
NONOPERATING REVENUES (EXPENSES)				
Interest earned	6,785	11,561	55	18,401
Property taxes	116,881	-	-	116,881
Interest and fiscal charges	(51,335)	(120,165)	-	(171,500)
TOTAL NONOPERATING REVENUES	72,331	(108,604)	55	(36,218)
TRANSFERS OUT	-	(12,280)	-	(12,280)
CHANGE IN NET ASSETS	85,540	(8,818)	(1,888)	74,834
Net assets, beginning of year	3,001,938	1,513,691	17,950	4,533,579
Net assets, end of year	<u>\$ 3,087,478</u>	<u>\$ 1,504,873</u>	<u>\$ 16,062</u>	<u>\$ 4,608,413</u>

See accompanying notes to financial statements.

Village of Capac

Proprietary Funds

STATEMENT OF CASH FLOWS

Year Ended June 30, 2008

	Business-Type Activities			
	Sewer	Water	Trash	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash receipts from customers	\$ 203,371	\$ 379,673	\$ 90,015	\$ 673,059
Cash received from others	5,525	8,283	1,587	15,395
Cash paid to employees	(60,327)	(79,018)	(6,032)	(145,377)
Cash paid to employee benefits	(24,625)	(33,283)	(3,470)	(61,378)
Cash paid to vendors	(22,060)	(115,111)	(74,391)	(211,562)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	101,884	160,544	7,709	270,137
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Loan proceeds	-	337,000	-	337,000
Property taxes	116,881	-	-	116,881
Transfers to other funds	-	(12,280)	-	(12,280)
Increase to cash on deposit with County	(3,593)	-	-	(3,593)
Capital purchases	-	(194,092)	-	(194,092)
Principal paid on bonds and notes	(135,000)	(67,000)	-	(202,000)
Interest and fiscal charges paid	(51,335)	(120,165)	-	(171,500)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(73,047)	(56,537)	-0-	(129,584)
CASH FLOWS FROM INVESTING ACTIVITIES				
Redemption (purchase) of investments	(137)	(15,977)	-	(16,114)
Interest earned	6,785	11,561	55	18,401
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	6,648	(4,416)	55	2,287
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	35,485	99,591	7,764	142,840
Cash and cash equivalents, beginning of year	24,638	344,692	7,330	376,660
Cash and cash equivalents, end of year	<u>\$ 60,123</u>	<u>\$ 444,283</u>	<u>\$ 15,094</u>	<u>\$ 519,500</u>

Village of Capac

Proprietary Funds

STATEMENT OF CASH FLOWS - CONTINUED

Year Ended June 30, 2008

	Business-type Activities			Total
	Sewer	Water	Trash	
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ 13,209	\$ 112,066	\$ (1,943)	\$ 123,332
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation	79,807	66,574	-	146,381
(Increase) in due from other funds	(37)	-	-	(37)
Decrease in receivables	10,211	24,030	2,267	36,508
(Increase) decrease in deferred charges	5,094	2,496	-	7,590
Increase (decrease) in due to other funds	(8,846)	(518)	9,084	(280)
Increase (decrease) in accounts payable	1,363	(61,893)	(1,628)	(62,158)
(Increase) decrease in prepaid expenses	680	1,285	(91)	1,874
Increase (decrease) in accrued liabilities	403	16,504	20	16,927
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 101,884</u>	<u>\$ 160,544</u>	<u>\$ 7,709</u>	<u>\$ 270,137</u>

See accompanying notes to financial statements.

Village of Capac

Fiduciary Fund

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2008

	<u>Tax Collection Fund</u>	<u>Agency Fund</u>	<u>Total</u>
ASSETS			
Cash	<u>\$ 703</u>	<u>\$ 57</u>	<u>\$ 760</u>
LIABILITIES			
Due to other funds	<u>\$ 703</u>	<u>\$ 57</u>	<u>\$ 760</u>

Village of Capac

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village operates under an elected Village Council, which consists of the President and five (5) council members, with daily activities managed by the Village Manager and Clerk. The Village provides services to its more than 1,500 residents in many areas including general government, law enforcement, highways and streets, and utility services.

The financial statements of the Village have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to Village governments. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Village's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of the Village of Capac (primary government), and its component units, entities for which the government is considered to be financially accountable. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the Village.

2. Discretely Presented Component Unit

The Downtown Development Authority is controlled by a nine member Council, who are appointed by the Village President. The DDA is responsible for the creation of a development and financial plan for the Downtown district or a development area within the district to promote economic growth. The Authority must obtain Village Council approval of all development and financial plans. The annual operating budget and any modifications also require the approval of the Village Council.

The Downtown Development Authority was included in the scope of the audit of the basic financial statements. Separate audited financial statements for this component unit were not issued.

3. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government and its component unit as a whole. All non-fiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide statements). For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The statement of activities presents the direct functional expenses of the primary government and its component unit and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Basis of Presentation - continued

FUND FINANCIAL STATEMENTS

The fund financial statements present the Village's individual major funds and aggregated nonmajor funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major individual enterprise funds are reported as separate columns in the fund financial statements.

The major funds of the Village are:

- a. The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Police Fund is a Special Revenue fund used to account for the financial resources related to operation of the Police Department.

4. Measurement Focus

The government-wide and proprietary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

5. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary and agency funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Basis of Accounting - continued

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

6. Budgets and Budgetary Accounting

The General and Special Revenue Funds' budgets shown as required supplementary information were prepared on the same modified accrual basis used to reflect actual results. This basis is consistent with accounting principles generally accepted in the United States of America. The Village employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. The Village President prepares the proposed operating budgets for the year commencing the following July 1. The operating budgets include proposed expenditures and resources to finance them.
- b. Prior to June 30, the proposed budgets are presented to the Village Council.
- c. Prior to the end of June, a public hearing is held and then the Council may add to, subtract, or change appropriations. The budgets are then legally enacted through passage of a Village Council resolution.
- d. The budget is integrated with the accounting system and is used as a management control device during the year. The Village Manager is authorized to transfer budgeted amounts between accounts within the same activity of any fund. Transfers between activities and funds must be approved by the Village Council.
- e. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles. Unexpended appropriations lapse at year-end.
- f. Budgeted amounts are as originally adopted or as amended by the Village Council during the fiscal year. Individual amendments were not material in relation to the original appropriations.

7. Cash and Cash Equivalents

The Village's cash and cash equivalents consist of cash on hand, demand deposits, or savings and certificates of deposits with original maturities of three months or less from the date of acquisition.

8. Receivables and Due From Other Governmental Units

Receivables consist of amounts due from various individuals and businesses related to charges for services, and taxes levied that have not been collected. Amounts due from other governmental units consist of amounts due for various financial assistance programs.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

9. Investments

The Villages investments consist of certificates of deposits with original maturities greater than three months from the date of acquisition.

10. Restricted Assets

Certain revenues and resources in the proprietary fund types are classified as restricted assets on the balance sheet because their use is limited.

11. Prepays

Payments made to vendors for services that will benefit future periods are recorded as prepaid expenditures.

12. Capital Assets

PRIMARY GOVERNMENT AND COMPONENT UNITS

Capital assets include land, buildings, equipment, vehicles, mains and infrastructure and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities and business-type columns. Capital assets are defined by the Village as those with an initial cost of \$2,000 or more and an estimated useful life of more than two years. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

As permitted by GASB Statement No. 34, the Village has elected not to report governmental infrastructure assets (principally roads and sidewalks) acquired prior to July 1, 2003.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Building and improvements	10-50 years
Machinery and equipment	3-25 years
Vehicles	3-12 years
Infrastructure/Roads	20-30 years
Utility Systems	10-80 years

13. Long-Term Obligations

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

Village of Capac

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

14. Compensated Absences

In accordance with contracts negotiated with the various employee groups of the Village, individual employees have vested rights upon termination of the employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. All vested vacation and sick leave is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

15. Deferred Revenue

Deferred revenue consists of grant funds that have been received but not yet expended on grant related expenditures.

16. Property Tax

The Village property taxes are levied each July on the assessed valuation of the property in the Village as of the preceding December 31, as adjusted by the March and July Board of Reviews.

Assessed values are established annually by the respective Village/Township and are equalized by the State at an estimated percentage of the current market value. Real and personal property for the Village of Capac for the fiscal year 2008 had taxable value of \$37,462,910. The millage rates levied by the Village were 13.4834 for the General Fund, 1.6811 for Street Improvements and 3.3556 for Sewer Debt Service fund.

17. Interfund Transactions

During the course of normal operations, the Village has numerous transactions between funds and the component unit, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

18. Comparative Data

Comparative data has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

19. Federal Programs

Federal programs are accounted for in the funds to which the programs pertain. The Village has not integrated its Single Audit reports and financial data as part of the financial statements. The Single Audit reports and financial data will be issued under separate cover as supplementary information to the financial statements.

NOTE B: CASH, CASH EQUIVALENTS AND INVESTMENTS

The Village cash, cash equivalents, and investments consist of checking and savings accounts, money markets accounts, and certificates of deposit, maintained by individual funds and are reported as cash, cash equivalents and investments on the basic financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE B: CASH, CASH EQUIVALENTS AND INVESTMENTS - CONTINUED

In accordance with the Village's investment policy and Michigan Compiled Laws, the Village is authorized to invest in certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State of the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible be a depository of surplus funds belong to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of Michigan Compiled Laws.

The Village's investment policy objectives, in order of priority, are safety, diversification, liquidity, and return on investment. The Village Treasurer is responsible for the investment program.

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. As of June 30, 2008, the carrying amounts of the Village's primary government deposits were \$1,247,338 and the bank balance was \$1,206,111, of which \$486,707 was covered by federal depository insurance. The balance of \$719,404 was uninsured and uncollateralized. In addition, the carrying amounts of the component unit's deposits were \$79,795 and the bank balance was \$79,795, which was covered by federal depository insurance.

Federal Deposit Insurance Corporation (FDIC), regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Due to significantly higher cash flow at certain periods during the year, the amount the Village held as cash, cash equivalents and investments increased significantly. As a result, the amount of uninsured and uncollateralized cash, cash equivalents and investments were substantially higher at these peak periods than at year-end.

The cash, cash equivalents and investments referred to above have been reported in the cash and cash equivalents or investment captions in the basic financial statements, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of June 30, 2008:

	<u>Primary Government</u>	<u>Component Units</u>	<u>Fiduciary Funds</u>	<u>Reporting Entity</u>
Cash and cash equivalents	\$ 591,573	\$ 79,795	\$ 760	\$ 672,128
Cash and cash equivalents - restricted	353,631	-	-	353,631
Investments	121,314	-	-	121,314
Investments - restricted	<u>180,060</u>	<u>-</u>	<u>-</u>	<u>180,060</u>
	<u>\$ 1,246,578</u>	<u>\$ 79,795</u>	<u>\$ 760</u>	<u>\$ 1,327,133</u>

Village of Capac

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE C: INTERFUND RECEIVABLES AND PAYABLES

The following schedule details interfund receivables and payables at June 30, 2008:

Due to General Fund from other funds:	
Police Department	\$ 10,149
Sewer	202
Water	1,373
Trash	9,249
Other non-major funds	<u>965</u>
	<u>\$ 21,938</u>
Due to Police Department from other funds:	
Water Fund	<u>\$ 195</u>
Due to Water Fund from other funds:	
Sewer Fund	\$ 17,933
General Fund	<u>20,000</u>
	<u>\$ 37,933</u>
Due to Sewer Fund from other funds:	
Tax Collection Fund	<u>\$ 37</u>
Due to nonmajor governmental funds from:	
General Fund	\$ 12,000
Sewer Fund	35,000
Other non-major funds	<u>18</u>
	<u>\$ 47,018</u>

The following schedule details primary government and component unit interfund receivables and payables at June 30, 2008:

Due to General Fund from Component Unit:	
Downtown Development Authority	<u>\$ 6,774</u>

NOTE D: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfers to Police Department Fund from:	
General Fund	<u>\$ 313,994</u> ⁽¹⁾

Village of Capac

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE D: INTERFUND TRANSFERS - CONTINUED

Transfers to nonmajor governmental funds from:

General Fund	\$ 30,000 ⁽²⁾
Downtown Development Authority (Component Unit)	3,052 ⁽²⁾
Water	12,280 ⁽²⁾
Other non-major funds	<u>128,768</u> ^{(2) (3)}
	<u>\$ 174,100</u>

(1) Transfer to cover operations

(2) To cover costs of construction project

(3) To transfer percentage of ACT 51 money

NOTE E: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 was as follows:

PRIMARY GOVERNMENT

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 102,111	\$ -	\$ -	\$ 102,111
Construction in progress	<u>632,270</u>	<u>-</u>	<u>(632,270)</u>	<u>-0-</u>
Total capital assets not being depreciated	734,381	-0-	(632,270)	102,111
Capital assets being depreciated				
Land improvements	86,779	-	-	86,779
Buildings and Improvements	654,668	-	-	654,668
Machinery and equipment	235,258	-	-	235,258
Vehicles	273,258	-	-	273,258
Infrastructure	<u>72,019</u>	<u>1,207,290</u>	<u>-</u>	<u>1,279,309</u>
Total capital assets being depreciated	1,321,982	1,207,290	-0-	2,529,272
Less accumulated depreciation				
Land improvements	(30,267)	(4,339)	-	(34,606)
Buildings and improvements	(289,275)	(14,204)	-	(303,480)
Machinery and equipment	(163,395)	(9,205)	-	(172,600)
Vehicles	(184,761)	(14,534)	-	(199,296)
Infrastructure	<u>(5,109)</u>	<u>(29,370)</u>	<u>-</u>	<u>(34,478)</u>
Total accumulated depreciation	<u>(672,807)</u>	<u>(71,651)</u>	<u>-0-</u>	<u>(744,460)</u>
Total Net capital assets being depreciated	<u>649,175</u>	<u>1,135,639</u>	<u>-0-</u>	<u>1,784,812</u>
Total Net Capital Assets - Governmental Activities	<u>\$ 1,383,556</u>	<u>\$ 1,135,639</u>	<u>\$(632,270)</u>	<u>\$ 1,886,923</u>

Village of Capac

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE E: CAPITAL ASSETS - CONTINUED

PRIMARY GOVERNMENT - CONTINUED

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Business-type activities				
Capital assets not being depreciated				
Land	\$ 39,000	\$ -	\$ -	\$ 39,000
Construction in progress	<u>2,486,562</u>	<u>-</u>	<u>(1,979,480)</u>	<u>507,082</u>
Total capital assets not being depreciated	2,525,562	-0-	(1,979,480)	546,082
Capital assets being depreciated				
Utility systems	8,806,594	2,173,572	-	10,980,166
Machinery and equipment	<u>56,376</u>	<u>-</u>	<u>-</u>	<u>56,376</u>
Total capital assets being depreciated	8,862,970	2,173,572	-0-	11,036,542
Less accumulated depreciation				
Utility systems	(3,527,519)	(146,108)	-	(3,673,627)
Machinery and equipment	<u>(55,055)</u>	<u>(273)</u>	<u>-</u>	<u>(55,328)</u>
Total accumulated depreciation	<u>(3,582,574)</u>	<u>(146,381)</u>	<u>-0-</u>	<u>(3,728,955)</u>
Net capital assets being depreciated	<u>5,280,396</u>	<u>2,027,191</u>	<u>-0-</u>	<u>7,307,587</u>
Total Net Capital Assets - Business-type Activities	<u>\$ 7,805,958</u>	<u>\$ 2,027,191</u>	<u>\$(1,979,480)</u>	<u>\$ 7,853,669</u>

COMPONENT UNIT

Downtown Development Authority

Capital assets not being depreciated				
Land	<u>\$ 9,783</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 9,783</u>

Depreciation expense for the governmental activities was charged to the following functions and activities of the primary government:

General government	\$ 1,994
Public safety	50,701
Public works	12,294
Recreation and cultural	<u>6,662</u>
Total depreciation expense	<u>\$ 71,651</u>

Village of Capac

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE F: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the Village for the year ended June 30, 2008.

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008	Amounts Due Within One Year
PRIMARY GOVERNMENT					
Governmental Activities					
Police Building Note Payable	\$ 143,389	\$ -	\$ 4,397	\$ 138,992	\$ 4,934
Police Vehicle Capital Lease	17,410	-	8,419	8,991	8,991
Accrued sick and vacation	9,100	-	2,931	6,169	-
Total governmental activities	169,899	-0-	15,747	154,152	13,925
Business-type Activities					
Michigan Water Pollution Control Loan	215,000	-	40,000	175,000	45,000
2000 Sewage Disposal System No. X Bonds	605,000	-	30,000	575,000	35,000
2004 Water Supply System Refunding Bonds	450,000	-	40,000	410,000	35,000
2004 Sewage Disposal System No. X Refunding Bonds	355,000	-	65,000	290,000	65,000
2006 Water Supply Systems Rural Development Loan	2,315,000	337,000	27,000	2,625,000	28,000
Accrued sick and vacation	884	4,323	-	5,207	-
Total business-type activities	3,940,884	341,323	202,000	4,080,207	208,000
TOTAL REPORTING ENTITY	\$ 4,110,783	\$ 341,323	\$ 217,747	\$ 4,234,359	\$ 221,925

Significant details regarding outstanding long-term debt (including current portion) are presented below:

PRIMARY GOVERNMENT

Police Building Note Payable

The Village refinanced the loans to purchase and remodel the police station in the amount of \$150,281. The loan is to be repaid in monthly installments of \$1,008, including interest of 5.25% through December 2015, at which point a balloon payment will be due.

\$ 138,992

Police Vehicle Capital Lease Payable

The Village entered into a lease/purchase in October 2006 for the purchase of a Ford Crown Victoria for the Police Department. The lease/purchase obligation will be paid off by October 2008.

\$ 8,991

Village of Capac

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE F: LONG-TERM DEBT - CONTINUED

The annual requirements to amortize the following loans outstanding at June 30, 2008, are as follows:

	<u>Police Building Note</u>		<u>Police Vehicle Note</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 4,917	\$ 7,181	\$ 8,991	\$ 611
2010	5,181	6,917	-	-
2011	5,460	6,638	-	-
2012	5,773	6,325	-	-
2013	6,084	6,014	-	-
2014-2015	<u>111,577</u>	<u>13,566</u>	<u>-</u>	<u>-</u>
	<u>\$ 138,992</u>	<u>\$ 54,073</u>	<u>\$ 8,991</u>	<u>\$ 611</u>

Michigan Water Pollution Control Revolving Loan Fund Program

To cover part of the construction cost of the Sewage Disposal System, the Village borrowed \$780,000 through the Michigan Municipal Bond Authority as part of the Michigan Water Pollution Control revolving Loan Fund Program. The total amount of loan money available was \$780,000, however only \$750,409 was drawn. The loan, dated September 26, 1991, is due in annual installments ranging from \$40,000 to \$45,000 through October 1, 2011, with interest of 2%, payable semi-annually.

\$ 175,000

Sewage Disposal System No. X Bonds, Series 2000

The 2000 \$790,000 Sewage Disposal System Bonds, dated August 1, 2000, due in annual installments ranging from \$30,000 to \$65,000 through April 1, 2020, with interest ranging from 5.00 to 5.55%, payable semi-annually.

\$ 575,000

Sewage Disposal System No. X Refunding Bonds, Series 2004

The 2004 Sewage Disposal System No. X Refunding Bonds, dated May 18, 2004, due in annual installments ranging from \$65,000 to \$75,000 through October 1, 2011, with interest ranging from 2.5 to 3.75%, payable semi-annually.

\$ 290,000

The annual requirements to amortize the following Sewage Disposal System Bonds and notes outstanding at June 30, 2008, are as follows:

	<u>Michigan Water Pollution Revolving Loan</u>		<u>2000 Sewage Disposal System Bond</u>		<u>2004 Sewage Disposal System Refunding Bond</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 45,000	\$ 3,050	\$ 35,000	\$ 30,815	\$ 65,000	\$ 8,875
2010	40,000	2,200	35,000	29,065	75,000	6,656
2011	45,000	1,350	40,000	27,315	75,000	4,125
2012	45,000	450	40,000	25,295	75,000	1,406
2013	-	-	45,000	23,235	-	-
2014-2018	-	-	255,000	78,108	-	-
2019-2020	<u>-</u>	<u>-</u>	<u>125,000</u>	<u>10,545</u>	<u>-</u>	<u>-</u>
	<u>\$ 175,000</u>	<u>\$ 7,050</u>	<u>\$ 575,000</u>	<u>\$ 224,378</u>	<u>\$ 290,000</u>	<u>\$ 21,062</u>

Village of Capac

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE F: LONG-TERM DEBT - CONTINUED

Accrued Vacation and Sick Pay

In accordance with contracts negotiated with the various employee groups of the Village, individual employees have vested rights upon termination of employment to receive payments for unused vacation and sick leave under formulas and conditions specified in the contracts. The dollar amounts of these vested rights have been accrued on the financial statements.

\$ 5,207

2006 Water Supply System Rural Development Loan

The Village borrowed \$2,652,000 through the U.S. Department of Agriculture, Rural Development Office to fund water system improvements and the Arsenic Removal System. The total amount of loan funds available are \$2,652,000, and the full amount has been drawn and expended as of June 30, 2008. The loan, dated August 21, 2006, is due in annual installments ranging from \$27,000 to \$128,000 through August 1, 2047, with interest of 4.125%, payable semi-annually.

\$ 2,625,000

Water Supply System Revenue Refunding Bonds, Series 2004

The 2004 \$570,000 Water Supply System Revenue Refunding Bonds, dated February 18, 2004, due in annual installments ranging from \$35,000 to \$40,000 through November 1, 2018, with interest ranging from 2.0 to 4.125%, payable semi-annually. These bonds were issued to pay off the 1989 Water Supply System Revenue Bonds of \$555,000.

\$ 410,000

The annual requirements to amortize the following Water Supply System Bonds outstanding at June 30, 2008, are as follows:

	<u>2006 Water Supply System Rural Development Loan</u>		<u>2004 Water Supply System Refunding Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 28,000	\$ 107,704	\$ 35,000	\$ 13,536
2010	29,000	106,528	40,000	12,614
2011	31,000	105,291	40,000	11,494
2012	32,000	103,992	30,000	10,444
2013	33,000	102,661	40,000	9,344
2014-2018	188,000	491,083	190,000	35,037
2019- 2023	230,000	448,182	35,000	722
2024-2028	281,000	395,566	-	-
2029-2033	344,000	331,361	-	-
2034-2038	422,000	252,572	-	-
2039-2043	516,000	156,214	-	-
2044-2047	491,000	41,453	-	-
	<u>\$ 2,625,000</u>	<u>\$ 2,642,000</u>	<u>\$ 410,000</u>	<u>\$ 93,191</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE G: FUND EQUITY RESERVES AND DESIGNATIONS

Reserved fund balances are used to earmark a portion of fund equity to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use.

The following are the various reserved fund balances as of June 30, 2008:

Fund Balances

General Fund	
Reserved for prepaids	\$ <u>24,667</u>
Police Department Fund	
Reserve for prepaids	\$ <u>8,082</u>
Nonmajor governmental Funds	
Reserved for prepaids	\$ <u>166</u>

Net Assets have been restricted in various proprietary funds to indicate that portions are restricted for specific purposes. The following net assets are restricted at June 30, 2008.

Restricted Net Assets

Water Fund	
Restricted for debt service	\$ 151,480
Restricted for capital projects	<u>315,114</u>
	\$ <u>466,594</u>
Sewer Fund	
Restricted for debt service	\$ 67,097
Restricted for capital projects	<u>102,610</u>
	\$ <u>169,707</u>

NOTE H: RETIREMENT PLANPlan Description

The Village participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all eligible full-time employees. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The plan adopted by the Village Council requires no member contributions. The Village is required to contribute at an actuarially determined rate; the rate for fiscal year 2008 ranged from 13.47 percent to 38.82 percent based on employer groups. The contribution requirements for plan members and the Village are established and may be amended by the Village depending on the MERS contribution program adopted by the Village.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE H: RETIREMENT PLAN - CONTINUED**Annual Pension Costs**

For year ended June 30, 2008 the Village's annual pension cost of \$59,943 for the plan was equal to the Village's required and actual contributions. The estimated annual required contribution was determined as part of an actuarial valuation at December 31, 2007, using the entry age actuarial cost method. Actual required contributions are based on actual reported monthly payroll. Significant actuarial assumptions used include (a) an 8.00 percent investment rate of return (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation (c) additional projected salary increases ranging from 0.0% to 4.16% per year depending on age, attributable to seniority/merit and, (d) assumption benefits will increase 2.0 - 2.5% annually. The actuarial value of assets was determined on the basis of the evaluation method that assumes the funds earn the expected rate of return (8%) and includes an adjustment to reflect market value. The unfunded actuarial liability is being amortized as a level percentage of payroll over a period of thirty years.

Three (3) year trend information

	Year Ended December 31,		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Actuarial value of assets	\$ 854,521	\$ 891,010	\$ 917,244
Actuarial accrued liability (AAL) (entry age)	1,687,660	1,741,327	1,919,815
Unfunded AAL	833,139	850,317	1,002,571
Funded ratio	51 %	51 %	48 %
Covered payroll	298,442	274,649	303,490
UAAL as a percentage of covered payroll	279 %	310 %	330 %

	Year Ended June 30,		
	<u>2006</u>	<u>2007</u>	<u>2008</u>
Annual pension cost	\$ 82,293	\$ 57,784	\$ 59,943
Percentage of APC contributed	100 %	100 %	100 %
Net pension obligation	-	-	-

This trend information was obtained from the MERS actuarial reports as of December 31, 2007.

NOTE I: POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note H, the Village provides post-employment health care and life insurance benefits to certain retired supervisors. The benefits are paid as incurred. The amount paid on behalf of these four retirees for the year ended June 30, 2008 was \$81,560.

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Post-employment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" post-employment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the new employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2010.

Village of Capac

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE J: RISK MANAGEMENT

The Village participates in a State pool, the Michigan Municipal Liability and Property Pool, with other municipalities for property, liability, crime and automobile. The pool is organized under Public Act 138 of 1982, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Village has not been informed of any special assessments being required.

The Village also participates in a pool, the Michigan Municipal Workers' Compensation Fund, with other municipalities for workers' compensation losses. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Village has not been informed of any special assessments being required.

NOTE K: RESTRICTED NET ASSETS

Restrictions of net assets shown in the Government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of June 30, 2008:

PRIMARY GOVERNMENT	
Governmental Activities	
Capital Projects	\$ 161,947
Other purposes	
Public safety	(13,628)
Capital Projects	22,335
Public Works/Streets	<u>104,420</u>
	<u>113,127</u>
	<u>\$ 275,074</u>
Business-type Activities	
Debt Service	\$ 218,577
Capital Projects	<u>417,724</u>
	<u>\$ 636,501</u>

NOTE L: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the budgetary comparison schedules, the Village's budgeted expenditures in the General and major Special Revenue Funds have been shown at the functional level.

Village of Capac

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE L: EXCESS OF EXPENDITURES OVER APPROPRIATIONS - CONTINUED

During the year ended June 30, 2008, the Village incurred expenditures in the General Fund and Police Fund in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
Public works			
Public works	\$ 117,391	\$ 123,092	\$ 5,701
Recreation and cultural			
Library	8,395	9,245	850
Police Department Fund	330,404	350,536	20,132

NOTE M: FUND DEFICIT

The Police Department Fund (Special Revenue Fund) ended the fiscal year in an unreserved-undesignated fund deficit position of \$13,628. The Village plans to file a deficit reduction plan with the State of Michigan to address how this deficit will be eliminated in the future.

REQUIRED SUPPLEMENTARY INFORMATION

Village of Capac

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2008

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes				
Property taxes	\$ 463,000	\$ 471,000	\$ 469,678	\$ (1,322)
Licenses and permits	425	425	273	(152)
Intergovernmental				
State	219,000	218,000	210,664	(7,336)
Local	7,000	7,300	8,078	778
Total intergovernmental	226,000	225,300	218,742	(6,558)
Interest and rents				
Interest	5,500	5,500	3,780	(1,720)
Rentals - cellular tower	13,000	13,000	15,817	2,817
Total interest and rents	18,500	18,500	19,597	1,097
Other				
Cable TV franchise fees	3,100	3,100	3,210	110
Refunds and reimbursements	33,900	44,400	79,894	35,494
Total other	37,000	47,500	83,104	35,604
TOTAL REVENUES	744,925	762,725	791,394	28,669
EXPENDITURES				
General government				
Village Council	48,780	49,475	46,209	3,266
Village Manager	16,660	22,358	15,103	7,255
Clerk	42,435	41,113	39,684	1,429
Treasurer	13,330	10,035	7,214	2,821
Village hall and grounds	22,400	19,200	19,166	34
Total general government	143,605	142,181	127,376	14,805

Village of Capac

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES - CONTINUED				
Public works				
Public works	\$ 97,504	\$ 117,391	\$ 123,092	\$ (5,701)
Street lighting	24,000	25,000	24,146	854
Total public works	121,504	142,391	147,238	(4,847)
Community and economic development				
Planning and zoning	30,950	35,437	35,299	138
Recreation and cultural				
Parks and Recreation	13,375	10,770	8,198	2,572
Library	9,290	8,395	9,245	(850)
Total recreation and cultural	22,665	19,165	17,443	1,722
Other	71,500	75,134	58,530	16,604
Contingencies	23,816	4,423	4,361	62
TOTAL EXPENDITURES	414,040	418,731	390,247	28,484
EXCESS OF REVENUES OVER EXPENDITURES	330,885	343,994	401,147	57,153
OTHER FINANCING (USES)				
Transfers out	(330,885)	(343,994)	(343,994)	-0-
TOTAL OTHER FINANCING (USES)	(330,885)	(343,994)	(343,994)	-0-
NET CHANGE IN FUND BALANCE	-0-	-0-	57,153	57,153
Fund balance, beginning of year	85,802	85,802	85,802	-0-
Fund balance, end of year	\$ 85,802	\$ 85,802	\$ 142,955	\$ 57,153

Village of Capac

Police Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2008

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Intergovernmental				
State	\$ 3,100	\$ 3,100	\$ 2,692	\$ (408)
Fines and forfeits	8,000	8,500	5,503	(2,997)
Interest	310	310	247	(63)
Other	4,500	4,500	1,531	(2,969)
TOTAL REVENUES	15,910	16,410	9,973	(6,437)
EXPENDITURES				
Public safety	292,093	308,702	327,677	(18,975)
Capital outlay	3,000	1,000	835	165
Debt service	21,702	20,702	22,024	(1,322)
TOTAL EXPENDITURES	316,795	330,404	350,536	(20,132)
EXCESS OF REVENUES (UNDER) EXPENDITURES	(300,885)	(313,994)	(340,563)	(26,569)
OTHER FINANCING SOURCES				
Transfers in	300,885	313,994	313,994	-0-
TOTAL OTHER FINANCING SOURCES	300,885	313,994	313,994	-0-
NET CHANGE IN FUND BALANCE	-0-	-0-	(26,569)	(26,569)
Fund balance, beginning of year	21,023	21,023	21,023	(26,569)
Fund balance (deficit), end of year	<u>\$ 21,023</u>	<u>\$ 21,023</u>	<u>\$ (5,546)</u>	<u>\$ (53,138)</u>

OTHER SUPPLEMENTARY INFORMATION

Village of Capac
Nonmajor Governmental Funds
COMBINING BALANCE SHEET
June 30, 2008

	Special Revenue		
	Local Street	Major Street	Street Improvements
ASSETS			
Cash and cash equivalents	\$ 193,514	\$ 50,091	\$ 31,256
Accounts receivable	1,476	-	-
Due from other governmental units			
State	4,836	13,332	-
Due from other funds	-	-	18
Prepays	95	71	-
TOTAL ASSETS	\$ 199,921	\$ 63,494	\$ 31,274
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 161,432	\$ 654	\$ -
Deferred revenue	5,422	-	-
Due to other funds	155	105	-
TOTAL LIABILITIES	167,009	759	-0-
FUND BALANCES			
Reserved	95	71	-
Unreserved			
Undesignated, reported in:			
Special Revenue Funds	32,817	62,664	31,274
Capital Project Funds	-	-	-
TOTAL FUND BALANCES	32,912	62,735	31,274
TOTAL LIABILITIES AND FUND BALANCES	\$ 199,921	\$ 63,494	\$ 31,274

Equipment Replacement	Capital Projects		Total Nonmajor Governmental Funds
	Water/Sewer Connection Fees	Street Scape	
\$ 10,335	\$ 58,893	\$ 10,682	\$ 354,771
-	-	-	1,476
-	35,037	-	53,205
12,000	35,000	-	47,018
-	-	-	166
<u>\$ 22,335</u>	<u>\$ 128,930</u>	<u>\$ 10,682</u>	<u>\$ 456,636</u>
\$ -	\$ -	\$ -	\$ 162,086
-	-	-	5,422
-	-	-	260
-0-	-0-	-0-	167,768
-	-	-	166
-	-	-	126,755
<u>22,335</u>	<u>128,930</u>	<u>10,682</u>	<u>161,947</u>
<u>22,335</u>	<u>128,930</u>	<u>10,682</u>	<u>288,868</u>
<u>\$ 22,335</u>	<u>\$ 128,930</u>	<u>\$ 10,682</u>	<u>\$ 456,636</u>

Village of Capac

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES

Year Ended June 30, 2008

	Special Revenue		
	Local Street	Major Street	Street Improvements
REVENUES			
Taxes	\$ -	\$ -	\$ 58,557
Charge for services	-	-	-
Intergovernmental			
Federal	-	-	-
State	32,303	74,816	-
Interest	1,589	1,168	3,796
Other	1,476	-	-
TOTAL REVENUES	35,368	75,984	62,353
EXPENDITURES			
Current			
Public works	41,845	50,593	-
Debt service	-	-	-
Capital outlay	240,846	-	-
TOTAL EXPENDITURES	282,691	50,593	-0-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(247,323)	25,391	62,353
OTHER FINANCING SOURCES (USES)			
Transfers in	158,768	-	-
Transfers out	-	(18,768)	(110,000)
TOTAL OTHER FINANCING SOURCES (USES)	158,768	(18,768)	(110,000)
NET CHANGE IN FUND BALANCES	(88,555)	6,623	(47,647)
Fund balances, beginning of year	121,467	56,112	78,921
Fund balances, end of year	\$ 32,912	\$ 62,735	\$ 31,274

Equipment Replacement	Capital Projects		Total Nonmajor Governmental Funds
	Water/Sewer Connection Fees	Street Scape	
\$ -	\$ -	\$ -	\$ 58,557
-	19,500	-	19,500
-	128,785	384,000	512,785
-	-	-	107,119
66	451	905	7,975
-	18,410	-	19,886
66	167,146	384,905	725,822
-	-	23	92,461
-	-	-	-
-	161,963	429,381	832,190
-0-	161,963	429,404	924,651
66	5,183	(44,499)	(198,829)
-	12,280	3,052	174,100
-	-	-	(128,768)
-0-	12,280	3,052	45,332
66	17,463	(41,447)	(153,497)
22,269	111,467	52,129	442,365
<u>\$ 22,335</u>	<u>\$ 128,930</u>	<u>\$ 10,682</u>	<u>\$ 288,868</u>

Village of Capac

Component Unit Funds

BALANCE SHEET/STATEMENT OF NET ASSETS - DOWNTOWN DEVELOPMENT AUTHORITY

June 30, 2008

	Governmental Fund	GASB 34 Adjustments	Statement of Net Assets
ASSETS			
Cash and cash equivalents	\$ 79,795	\$ -	\$ 79,795
Capital assets - not being depreciated	-	9,783	9,783
TOTAL ASSETS	<u>\$ 79,795</u>	9,783	89,578
LIABILITIES AND FUND EQUITY			
LIABILITIES			
Due to primary government	\$ 6,774	-	6,774
FUND BALANCE			
Unreserved			
Undesignated	<u>73,021</u>	(73,021)	-0-
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 79,795</u>		
NET ASSETS			
Investment in capital assets, net		9,783	9,783
Unrestricted		<u>73,021</u>	<u>73,021</u>
		<u>\$ 82,804</u>	<u>\$ 82,804</u>

Village of Capac

RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS - DOWNTOWN DEVELOPMENT AUTHORITY

June 30, 2008

Total fund balance - component unit funds	\$ 73,021
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Amounts reported for the component unit activities in the statement of net assets are different because:

Capital assets used in component unit activities are not financial resources
and therefore are not reported as assets in the component unit funds.

The cost of capital assets is	<u>9,783</u>
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Net assets of component unit funds	<u><u>\$ 82,804</u></u>
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See accompanying notes to financial statements.

Village of Capac

Component Unit Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE/STATEMENT OF ACTIVITIES - DOWNTOWN DEVELOPMENT AUTHORITY

Year Ended June 30, 2008

	Governmental Fund	GASB 34 Adjustments	Statement of Activities
REVENUES			
Taxes	\$ 69,228	\$ -	\$ 69,228
Interest	323	-	323
Total Revenues	69,551	-0-	69,551
EXPENDITURES			
Current			
Community and economic development	18,545	-	18,545
EXCESS OF REVENUES OVER EXPENDITURES	51,006	-0-	51,006
OTHER FINANCING (USES)			
Transfers to primary government	(3,052)	-	(3,052)
NET CHANGE IN FUND BALANCE/NET ASSETS	47,954	-0-	47,954
Fund balance/net assets, beginning of year	25,067	9,783	34,850
Fund balance/net assets, end of year	<u>\$ 73,021</u>	<u>\$ 9,783</u>	<u>\$ 82,804</u>

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable President and
Members of the Village Council
Village of Capac
Capac, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Capac for the year ended June 30, 2008, and have issued our report thereon dated December 10, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Capac's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control over financial reporting, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We considered the following deficiencies to be significant deficiencies in internal control over financial reporting:

2008-1 Preparation of Financial Statements in Accordance with GAAP

As part of the audit process, the Village, as well as most governments, has historically relied on the independent auditors to assist in the preparation of certain year-end adjusting entries and the government-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. It is more cost effective to outsource the preparation of the annual financial statements to the independent auditors than to incur the time and expense of having the employees and/or management obtain the necessary training and expertise required to perform these tasks internally. Under the new auditing standards, this is now a control deficiency due mainly to the fact that the Village does not prepare all significant year-end adjusting entries to assure the audited financial statements are reported in accordance with accounting principles generally accepted in the United States of America (GAAP). We had also noted this issue during our audit of the prior year.

We recommend the Village consider having applicable employees prepare all significant year-end adjusting entries. Should the Village choose not to address this issue, management and the Council should realize that an increased risk is present in not having the proper internal control over financial reporting.

2008-2 Documentation to Support Downtown Development Authority (DDA) Tax Revenues

During the analysis of the DDA tax revenues, we noted that the DDA received very little information from the Township to support the amount of taxes that were captured on their behalf. Mainly the only documentation on file was a memo provided by the Township listing the amounts captured and remitted to the DDA. We had also noted this issue during our audit of the prior year.

We recommend the DDA obtain more detailed information from the Township related to their tax revenues (i.e., taxable value information, copies of tax rolls, recapture amounts, etc.) to assure that all amounts remitted by the Township are accurate.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed two (2) instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described below.

2008-3 Expenditures in Excess of Appropriations

During the course of our audit, we noted instances in the General Fund and Police Department Funds where expenditures had been incurred in excess of the amounts appropriated. This issue was also noted during our audit of the prior year.

Michigan Public Act 621 of 1978, as amended, provides that the Council shall adopt formal budgets for the General and all Special Revenue funds and shall not incur expenditures in excess of the amounts appropriated. The budget must include all anticipated expenditures and the related revenue and fund equity to fund these expenditures.

We recommend that the Village management monitor adopted budgets against actual expenditures and make adjustments as appropriate throughout the year.

2008-4 Fund Deficits

During the course of our audit, we noted that the Police Department Fund ended the fiscal year in an unreserved-undesignated fund deficit position. As a result, the Village will need to prepare a deficit reduction plan with the Michigan Department of Treasury outlining how the deficit will be eliminated in the future.

We recommend that Village management prepare the required deficit reduction plan and file it with the Michigan Department of Treasury. Village management should also closely review and monitor the Police Department Fund operations to assure that the deficit will be eliminated in the near future.

This report is intended solely for the information and use of the Village Council and management of the Village of Capac, others within the organization, the pass-through grantors, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY P.C.
Certified Public Accountants

December 10, 2008

**Village of Capac
St. Clair County, Michigan**

**SUPPLEMENTARY INFORMATION TO
FINANCIAL STATEMENTS
(FEDERAL AWARDS)**

June 30, 2008

Village of Capac
St. Clair County, Michigan

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Honorable President and
Members of the Village Council
Village of Capac
Capac, Michigan

Compliance

We have audited the compliance of the Village of Capac with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that is applicable to the major Federal program for the year ended June 30, 2008. The Village of Capac's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major Federal program are the responsibility of Village of Capac's management. Our responsibility is to express an opinion on the Village of Capac's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on major Federal programs occurred. An audit includes examining, on a test basis, evidence about the Village of Capac's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Village of Capac's compliance with those requirements.

In our opinion, the Village of Capac complied, in all material respects, with the requirements referred to above that are applicable to the major Federal program for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the Village of Capac is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the Village of Capac's internal control over compliance with requirements that could have a direct and material effect on the major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control structure that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to the major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We have audited the financial statements of the governmental activities, business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of Village of Capac as of and for the year ended June 30, 2008, and have issued our report thereon dated December 10, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Village of Capac's basic financial statements. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Village Council and management of the Village of Capac, the pass-through grantors, and the U.S. Departments of Agriculture and Housing and Urban Development and is not intended to be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

December 10, 2008

Village of Capac
St. Clair County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2008

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Passed through the Michigan Economic Development Corporation			
Community Development Block Grant Program	14.228 ^(a)		
Downtown Streetscape Improvement Project		MSC 204072-EDIG	\$ 384,000
Keihin Michigan Manufacturing, LLC Infrastructure Project		MSC 207003-EDIG	<u>128,785</u>
			512,785
U.S. DEPARTMENT OF AGRICULTURE			
Direct Program:			
Rural Development Office			
Water and Waste Disposal Systems For Rural Communities			
Loan Program - Water Improvement Project	10.760	26-077	<u>337,000</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 849,785</u>

(a) - Denotes program tested as a "major" program

Village of Capac
St. Clair County, Michigan

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2008

NOTE A: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the Village of Capac and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements that are reconciled in Note B.

NOTE B: RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The following reconciles the intergovernmental revenues reported in the June 30, 2008, Basic Financial Statements to the expenditures of the Village administered Federal programs reported on the Schedule of Expenditures of Federal Awards:

	<u>Inter- Governmental Revenue</u>	<u>Less State/Local Revenue</u>	<u>Adjustments</u>	<u>Federal Expenditures</u>
PRIMARY GOVERNMENT				
Governmental Funds	\$ 841,338	\$ 328,553	\$ -	\$ 512,785
Proprietary Funds				
Water Fund	<u>-</u>	<u>-</u>	<u>337,000</u> ⁽¹⁾	<u>337,000</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 841,338</u>	<u>\$ 328,553</u>	<u>\$ 337,000</u>	<u>\$ 849,785</u>

Following is a summary of the adjustment in the above schedule:

- (1) The total adjustment of \$337,000 in Federal funds represents the portion of loan proceeds received by the Village of Capac that are capitalized with Federal funds and thus must be reported as Federal financial assistance.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable President and
Members of the Village Council
Village of Capac
Capac, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Capac for the year ended June 30, 2008, and have issued our report thereon dated December 10, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Capac's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control over financial reporting, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies labeled as 2008-1 and 2008-2 in the Schedule of Findings to be significant deficiencies in internal control over financial reporting:

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed two (2) instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are labeled as 2008-3 and 2008-4 in the Schedule of Findings.

This report is intended solely for the information and use of the Village Council and management of the Village of Capac, others within the organization, the pass-through grantors, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY P.C.
Certified Public Accountants

December 10, 2008

Village of Capac
St. Clair County, Michigan

SCHEDULE OF FINDINGS

For the Year Ended June 30, 2008

SUMMARY OF AUDITOR'S RESULTS

An unqualified opinion was issued on the basic financial statements. There were two (2) reportable conditions disclosed by the audit of the basic financial statements. We noted two (2) instances of noncompliance with laws, regulations, contracts and grants that could have a direct and material effect on the basic financial statements.

An unqualified opinion was issued on compliance for major programs. We noted no reportable conditions related to internal controls or compliance related to the major program tested. The major program tested to cover 50 percent of the total Federal expenditures was the Community Development Block Grant program (CFDA 14.228). Total Federal expenditures for the year ended June 30, 2008, for the major program was \$512,785 which is 60 percent of total Federal expenditures. The Village did not qualify as a low-risk auditee.

The Village had two (2) Type A programs. Programs of less than \$300,000 were determined to be Type B programs.

FINDINGS/NONCOMPLIANCE

Significant Deficiencies Related to Internal Control Over the Basic Financial Statements.

2008-1 Preparation of Financial Statements in Accordance with GAAP

As part of the audit process, the Village, as well as most governments, has historically relied on the independent auditors to assist in the preparation of certain year-end adjusting entries and the government-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. It is more cost effective to outsource the preparation of the annual financial statements to the independent auditors than to incur the time and expense of having the employees and/or management obtain the necessary training and expertise required to perform these tasks internally. Under the new auditing standards this is now a control deficiency due mainly to the fact that the Village does not prepare all significant year-end adjusting entries to assure the audited financial statements are reported in accordance with accounting principles generally accepted in the United States of America (GAAP). We had also noted this issue during our audit of the prior year.

We recommend the Village consider having applicable employees prepare all significant year-end adjusting entries. Should the Village choose not to address this issue, management and the Council should realize that an increased risk is present in not having the proper internal control over financial reporting.

CORRECTIVE ACTION RESPONSE

The Village contracts with an individual who performs various accounting services including maintenance of monthly financial information and also closeout of year-end financial information. The Village plans to have this individual continue to work with the external auditors during the upcoming year so that certain analyses and related all year-end adjusting entries can be made by this individual. This individual will also review all draft financial statements and notes to assure the financial statements are presented in accordance with applicable accounting principles.

2008-2 Documentation to Support Downtown Development Authority (DDA) Tax Revenues

During the analysis of the DDA tax revenues, we noted that the DDA received very little information from the Township to support the amount of taxes that were captured on their behalf. Mainly the only documentation on file was a memo provided by the Township listing the amounts captured and remitted to the DDA. We had also noted this issue during our audit of the prior year.

We recommend the DDA obtain more detailed information from the Township related to their tax revenues (i.e., taxable value information, copies of tax rolls, recapture amounts, etc.) to assure that all amounts remitted by the Township are accurate.

Village of Capac
St. Clair County, Michigan

SCHEDULE OF FINDINGS - CONTINUED

For the Year Ended June 30, 2008

FINDINGS/NONCOMPLIANCE - CONTINUED

Significant Deficiencies Related to Internal Control Over the Basic Financial Statements - Continued.

2008-2 Documentation to Support Downtown Development Authority (DDA) Tax Revenues - continued

CORRECTIVE ACTION RESPONSE

The Village plans to work with the DDA Board and management in the upcoming year to assure that proper documentation is obtained from the Township to support the amounts of taxes captured and remitted to the DDA.

Findings Related to Compliance with Requirements Related to the Basic Financial Statements.

2008-3 Expenditures in Excess of Appropriations

During the course of our audit, we noted instances in the General Fund and Police Department Funds where expenditures had been incurred in excess of the amounts appropriated. This issue was also noted during our audit of the prior year.

Michigan Public Act 621 of 1978, as amended, provides that the Council shall adopt formal budgets for the General and all Special Revenue funds and shall not incur expenditures in excess of the amounts appropriated. The budget must include all anticipated expenditures and the related revenue and fund equity to fund these expenditures.

We recommend that the Village management monitor adopted budgets against actual expenditures and make adjustments as appropriate throughout the year.

CORRECTIVE ACTION RESPONSE

The Village plans to review budgeted and actual expenditures more frequently (especially near year-end) to assure that actual expenditures do not exceed budgeted amounts. Appropriate budget amendments will be prepared and approved by the Village Council as needed.

2008-4 Fund Deficits

During the course of our audit, we noted that the Police Department Fund ended the fiscal year in an unreserved-undesignated fund deficit position. As a result, the Village will need to prepare a deficit reduction plan with the Michigan Department of Treasury outlining how the deficit will be eliminated in the future.

We recommend that Village management prepare the required deficit reduction plan and file it with the Michigan Department of Treasury. Village management should also closely review and monitor the Police Department Fund operations to assure that the deficit will be eliminated in the near future.

CORRECTIVE ACTION RESPONSE

The Village plans to prepare and submit the deficit reduction plan to the Michigan Department of Treasury as required. The Village will also review and monitor the Police Department budget closely to assure that the deficit is eliminated in the future.

Findings Related to Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.

None

Village of Capac
St. Clair County, Michigan

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended June 30, 2008

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Controls Over the General Purpose Financial Statements.

2007-1 Preparation of Financial Statements in Accordance with GAAP

As part of the audit process, the Village, as well as most governments, has historically relied on the independent auditors to assist in the preparation of certain year-end adjusting entries and the government-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. It is more cost effective to outsource the preparation of the annual financial statements to the independent auditors than to incur the time and expense of having the employees and/or management obtain the necessary training and expertise required to perform these tasks internally. Under the new auditing standards this is now a control deficiency that the Village does not prepare all significant year-end adjusting entries and/or have the technical expertise to prepare the audited financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

We recommend the Village consider having applicable employees prepare all significant year-end adjusting entries and to provide these individuals with training (if needed) that would allow them to attain the qualifications required to be able to complete all necessary year-end adjusting entries and to fully understand the GAAP financial statements preparation process. Should the Village choose not to address this issue, management and the Council should realize that an increased risk is present in not having the proper internal control over financial reporting.

CORRECTIVE ACTION RESPONSE

The Village contracts with an individual who performs various accounting services including maintenance of monthly financial information and also closeout of year-end financial information. The Village plans to have this individual continue to work with the external auditors during the upcoming year so that certain analyses and related all year-end adjusting entries can be made by this individual. This individual will also review all draft financial statements and notes to assure the financial statements are presented in accordance with applicable accounting principles.

CURRENT STATUS

The Village has made some progress in this area in that the number of audit adjusting entries has been reduced related to the prior year. However, there was still a number of audit adjusting entries that were required to be posted to the financial statements for the current year. Therefore, we have repeated this finding in the current year audit.

2007-2 Internal Controls Over Utility Billings and Collections

During our analysis of the internal control structure over utility billings and collections, we noted that the Village Clerk is involved in all aspects of the operation (i.e., enters usage information and prepares billings, collects utility receipts, posts payments and adjustments to customer accounts, etc.). This structure does not provide adequate internal controls due to the fact that one individual has the ability to process all aspects of a transaction. We did note that the Deputy Clerk also is involved in collecting utility receipts on certain days.

We recommend the Village review the internal control structure and procedures related to utility billing and collections to determine if there are any changes that could be made to strengthen the internal controls.

Village of Capac
St. Clair County, Michigan

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - CONTINUED

For the Year Ended June 30, 2008

FINDINGS/NONCOMPLIANCE - CONTINUED

Reportable Conditions Related to Internal Controls Over the General Purpose Financial Statements - Continued.

2007-2 Internal Controls Over Utility Billings and Collections - continued

CORRECTIVE ACTION RESPONSE

The Village is currently in the process of updating certain components of the utility billing processes (i.e., meter reading and automated entry of information in to the billing records). During this process, the Village will analyze duties of all employees related to the utility billing and collection process and will segregate duties as much as is possible with the limited staffing and resources.

CURRENT STATUS

The Village has reviewed procedures related to the utility billing and collection processes, and feels that they have established reasonable segregations of duties in this area in relation to staffing capabilities. Where segregation of duties is lacking, the Village has implemented alternative controls (i.e., bookkeeper maintenance of general ledgers and reconciliation of utility receivable and revenue balances to subsidiary records) to offset these weaknesses.

We feel the Village has taken reasonable steps to address this weakness in internal controls, however the Council and management of the Village should realize that there is an increased risk in this area.

Findings Related to Compliance with Requirements Applicable to the General Purpose Financial Statements.

2007-3 Expenditures in Excess of Appropriations

During the course of our audit, we noted instances where expenditures had been incurred in excess of amounts appropriated. This issue was noted in the General Fund and Police Department Fund.

Michigan Public Act 621 of 1978, as amended, provides that the Council shall adopt formal budgets for the General and all Special Revenue funds and shall not incur expenditures in excess of the amounts appropriated. The budget must include all anticipated expenditures and the related revenue and fund equity to fund these expenditures.

We recommend that the Village management monitor adopted budgets against actual expenditures and make adjustments as appropriate throughout the year.

CORRECTIVE ACTION RESPONSE

The Village plans to review budgeted and actual expenditures more frequently (especially near year-end) to assure that actual expenditures do not exceed budgeted amounts. Appropriate budget amendments will be prepared and approved by the Village Council as needed.

CURRENT STATUS

During our audit of the current year, we again noted instances where actual expenditures exceeded budgeted amounts. As a result, we have repeated this finding in our audit of the current year.

Findings Related to Compliance with Requirements Applicable to Federal Awards and Internal Control Over Compliance in Accordance with OMB Circular A-133.

No prior audit findings noted.